

Preying on Neighborhoods: First Half of 2007 Foreclosure Update

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National Training and Information Center (NTIC) is a not-for-profit resource center for grassroots community organizations. For more than 30 years, NTIC has provided training, technical assistance, consulting and research to groups across the country. NTIC's mission is to build leadership skills in neighborhoods across the country through issue-based community organizing.

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Dedication

As Gale Cincotta's life was coming to an end, she admonished NTIC to "Get the Crooks." In that spirit, this report is intended to shine light on the practices the "crooks" use to steal a family's wealth, leaving broken dreams and social problems in their wake.

Prequel: The Problem with Being Right

As the foreclosure crisis unfolds it is becoming increasingly clear that what NTIC, community groups and consumer advocates have been saying since the late 1990's is now being proved right: predatory sub-prime loans have and are ravaging our neighborhoods, robbing families of wealth, and destroying futures. Not surprisingly, now that major Wall Street firms are being forced to report unprecedented losses, confirming our warnings to regulators and the industry, the foreclosure crisis and the need to do something about it is now moving from the back-burner. Yet the focus remains more on Wall Street than on Main Street.

How did we get here? Gramm-Leach-Bliley Financial Modernization Act opened the gate into dangerous experimentation in the subprime market. Brokers began shifting from FHA-insured loans to conventional sub-prime loans. Low-documentation and no-documentation loans began to proliferate. New schemes to “juice” loans (i.e. pack loans with financed fees) became common place. The expansion of homeownership became a good in and of itself without safeguards and without the expansion of financial counseling resources. Loan products that had existed for years but, which were reserved for only a narrow range of special needs customers, entered the mainstream.

“Bad credit? No problem” marketing campaigns filled the airwaves, hawked by sports figures. Internationally renowned rock-and-roll tours were sponsored by now defunct industry shooting stars. The industry madness to maintain or gain market share led to a frenzied push to refinance borrowers. Borrowers were told, “Put the equity in your house to work,” “Payoff those credit card bills,” “Take that vacation,” and “[Refinance with us,] it's the biggest no brainer in the history of earth.”

Now, as then, the industry often blames borrowers. After all, the argument goes, they

signed the papers—they should not have done that if they didn't understand what they were doing. The industry, on defense, now conveniently forgets that there was often a broker there representing the industry and willing to say anything to make sure the borrower signed the deal. His or her compensation was based solely on completing the transaction.

The real story behind the foreclosure crisis is that many homeowners were sold a bill of goods, advised to use their homes (to use the words that one Wall Street executive actually used recently) as “ATM machines” by the brokers' advertisements, and advised to take unsecured credit card debt and other installment credit and secure it with the single most important asset most families have—their home.

While the losses mount on Wall Street and at other financial institutions, the impact of the foreclosure crisis on neighborhoods and individual families will likely be quickly forgotten by the industry and national public policy makers. The hard earned wealth senior citizens and other families lost through equity-stripping schemes are gone forever and may strain public and private safety net programs. Credit scores for these families may take years to recover, decreasing access to jobs, insurance, financial services and housing. Many families may struggle with unnecessarily burdensome loans that may not result in foreclosure but will drain resources. Neighborhoods will suffer from the rise of foreclosures, crime associated with abandoned buildings, the influx of properties for sale, and the decrease in housing values. Cities and counties will suffer from decreased tax rolls and rising costs for law enforcement and fire fighting.

All in all, the binge into sub-prime lending will have serious ramifications for many years to come. And many will be reminded that the problem with being right is that you often wish that you weren't.

Executive Summary

This analysis looks at foreclosures in the City of Chicago and surrounding areas for the first half of 2007.¹ The analysis serves as an update to the periodic analyses published by NTIC since 1999. The analysis confirms that the foreclosure crisis in the Chicago area is being driven by ARMs that include:

- **Interest-only loans**, in which the borrower is required to pay only the interest accumulated on the loan each month. The borrower is not required to make any payment on the actual amount borrowed so that at the end of the loan the full loan amount is due.

- **Payment-option loans**, in which the borrower can choose to make a minimum payment, similar in concept to the minimum payment on a credit card. At the end of the loan, the amount due may be greater than the original loan amount (a situation called negative amortization).

- **“Teaser” or “Introductory Rate,”** in which the borrower enjoys an initial low interest rate (sometimes as low as 1%) for the first few months or year. At the end of the introductory period the interest rate may increase substantially leading to “payment shock,” an often huge increase in the required monthly payment.

- **Adjustable Rate Mortgages (ARMs) that only adjust upward**, in which the interest rate adjusts upward according to a schedule regardless of what happens to interest rates in general.

In addition to looking at the interest rate characteristics of mortgages that fell into foreclosures during the first six months of 2007, the analysis looks at how foreclosures are concentrated in certain communities. West Englewood had the most foreclosures per square mile that any other community area in Chicago and Bellwood had the most foreclosures per square mile that any other suburb.

This report concludes with a summary of NTIC’s recommendations for dealing with the foreclosure crisis in Chicagoland and across the country. More information about NTIC’s Save the

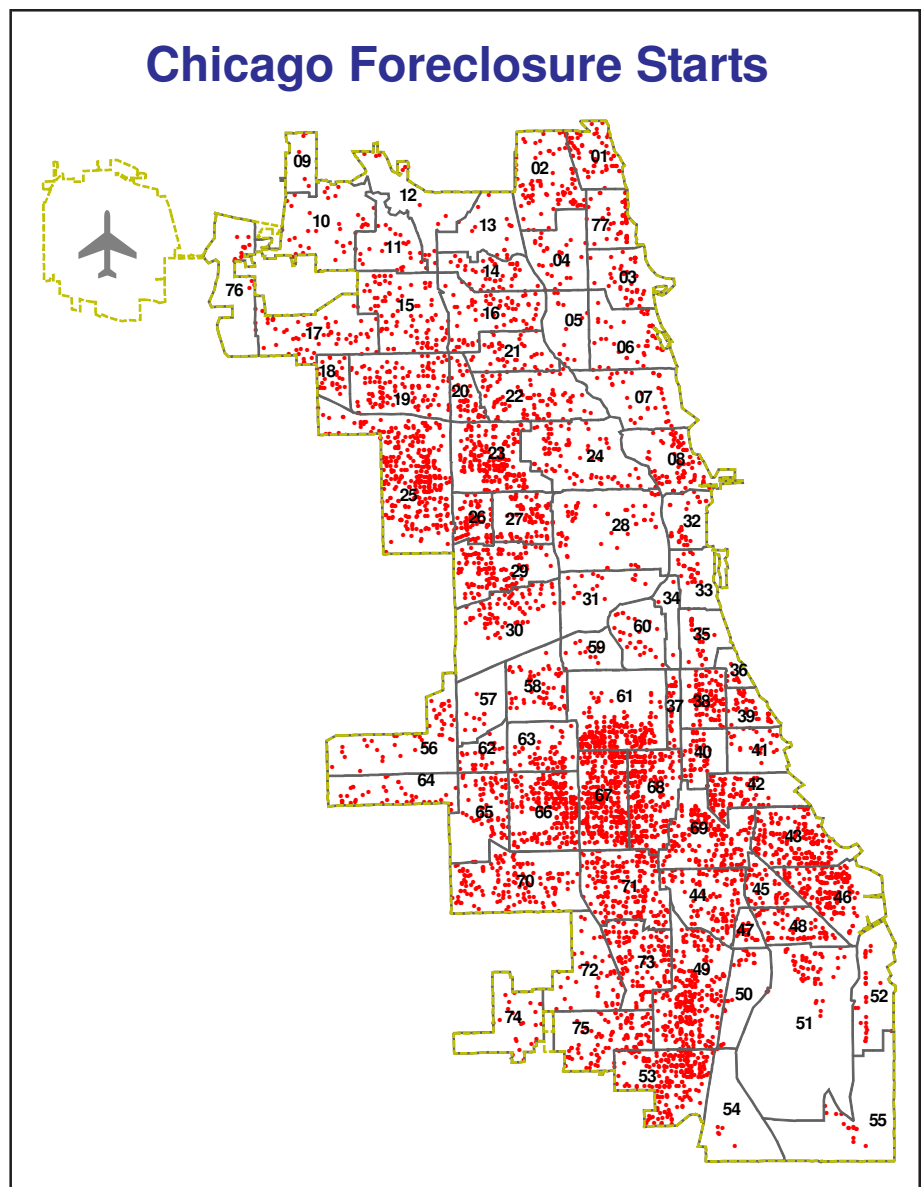
¹ The source of raw data for this analysis came from the Foreclosure Report of Chicago and Public-Record.com.

Finding 1: Foreclosures continue to be concentrated on the west and south sides of Chicago and West Englewood has more than 111 foreclosures per square mile.

A glimpse at the map of Chicago with each new foreclosure case marked by a red dot makes it clear that foreclosures are not distributed evenly across the city. Viewing the simple concentration statistic of foreclosure cases per square mile in each of Chicago's 77 community areas (see table on next page) drives this point home and helps to demonstrate just how devastating foreclosures can be to a neighborhood and its homeowners.

Each foreclosure case represents a family who is 90 days or more delinquent on their mortgage payment. This is likely not the only payment on which they are behind—a reality which effects the economies of these neighborhoods and their local businesses. If these families

ultimately lose their homes—whether through foreclosure or a third-party sale—"for sale" properties will flood the market in these neighborhoods reducing housing values and increasing the difficulty of selling homes. Slumping real estate markets increase the likelihood of abandonment, vandalism, increased crime, and fire rates and reduce property tax revenue.



Concentration of New Foreclosure Cases by Community Area

Community Area	Foreclosure Cases Started from January through June			1st Half Foreclosure Starts per square mile	
	2006	2007	Percent Change 2006-07	2006	2007
67 West Englewood	220	348	58.2%	70.3	111.2
68 Englewood	191	276	44.5%	62.2	89.9
43 South Shore	153	215	40.5%	51.9	72.9
38 Grand Boulevard	80	122	52.5%	46.5	70.9
26 West Garfield Park	86	89	3.5%	67.7	70.1
66 Chicago Lawn	146	242	65.8%	41.5	68.8
53 West Pullman	211	228	8.1%	58.1	62.8
49 Roseland	202	277	37.1%	41.9	57.5
71 Auburn Gresham	154	207	34.4%	41.2	55.3
42 Woodlawn	81	115	42.0%	37.9	53.7
69 Greater Grand Crossing	126	188	49.2%	35.6	53.1
23 Humboldt Park	124	189	52.4%	34.5	52.6
46 South Chicago	119	169	42.0%	35.7	50.8
25 Austin	301	345	14.6%	42.3	48.5
73 Washington Heights	123	136	10.6%	43.2	47.7
61 New City	117	221	88.9%	24.2	45.7
39 Kenwood	30	49	63.3%	27.8	45.4
27 East Garfield Park	65	87	33.8%	33.5	44.8
29 North Lawndale	106	142	34.0%	33.1	44.4
08 Near North	95	112	17.9%	34.9	41.2
44 Chatham	112	116	3.6%	38.0	39.3
45 Avalon Park	66	48	-27.3%	52.8	38.4
40 Washington Park	32	57	78.1%	21.1	37.5
48 Calumet Heights	36	66	83.3%	20.5	37.5
77 Edgewater	39	64	64.1%	22.8	37.4
37 Fuller Park	10	26	160.0%	14.1	36.6
20 Hermosa	23	42	82.6%	19.8	36.2
75 Morgan Park	95	101	6.3%	30.0	31.9
19 Belmont Cragin	85	122	43.5%	21.7	31.2
70 Ashburn	105	145	38.1%	21.7	30.0
01 Rogers Park	32	55	71.9%	17.4	29.9
65 West Lawn	45	80	77.8%	15.2	27.0
32 Loop	28	42	50.0%	17.8	26.8
47 Burnside	13	16	23.1%	21.0	25.8
18 Montclair	15	25	66.7%	15.2	25.3
22 Logan Square	43	90	109.3%	12.0	25.2
02 West Ridge	41	87	112.2%	11.7	24.8
63 Gage Park	49	55	12.2%	22.0	24.7
15 Portage Park	32	94	193.8%	8.1	23.8
14 Albany Park	23	45	95.7%	12.0	23.4
16 Irving Park	30	73	143.3%	9.3	22.7
21 Avondale	25	43	72.0%	12.6	21.7
62 West Elston	18	25	38.9%	15.4	21.4
03 Uptown	33	49	48.5%	14.1	20.9
58 Brighton Park	29	56	93.1%	10.7	20.7
35 Douglas	29	29	0.0%	17.5	17.5
30 South Lawndale	37	79	113.5%	8.1	17.4
24 West Town	64	79	23.4%	14.0	17.3
17 Dunning	39	64	64.1%	10.5	17.2
06 Lakeview	31	54	74.2%	9.9	17.2
33 Near South Side	23	28	21.7%	13.2	16.1
41 Hyde Park	20	26	30.0%	11.9	15.5
36 Oakland	4	9	125.0%	6.8	15.3
64 Clearing	18	37	105.6%	7.1	14.6
50 Pullman	22	29	31.8%	10.4	13.7
72 Beverly	30	43	43.3%	9.4	13.5
60 Bridgeport	23	26	13.0%	11.0	12.4
11 Jefferson Park	20	28	40.0%	8.6	12.0
07 Lincoln Park	18	37	105.6%	5.6	11.4
28 Near West Side	31	62	100.0%	5.4	10.9
56 Garfield Ridge	35	44	25.7%	8.3	10.4
04 Lincoln Square	13	26	100.0%	5.1	10.2
52 East Side	25	28	12.0%	8.8	9.8
74 Mount Greenwood	12	24	100.0%	4.4	8.9
10 Norwood Park	22	36	63.6%	5.2	8.5
59 McKinley Park	9	11	22.2%	6.4	7.8
05 North Center	13	14	7.7%	6.3	6.8
13 North Park	8	15	87.5%	3.2	6.0
31 Lower West Side	16	17	6.3%	5.5	5.8
57 Archer Heights	13	10	-23.1%	6.5	5.0
51 South Deering	57	51	-10.5%	5.2	4.7
76 O'Hare	7	14	100.0%	2.2	4.4
09 Edison Park	6	5	-16.7%	5.2	4.3
12 Forest Glen	10	13	30.0%	3.1	4.1
34 Armour Square	1	3	200.0%	1.0	3.1
55 Hegewisch	16	14	-12.5%	3.0	2.7
54 Riverdale	3	5	66.7%	0.9	1.4
City of Chicago	4464	6339	42.0%	19.4	27.5

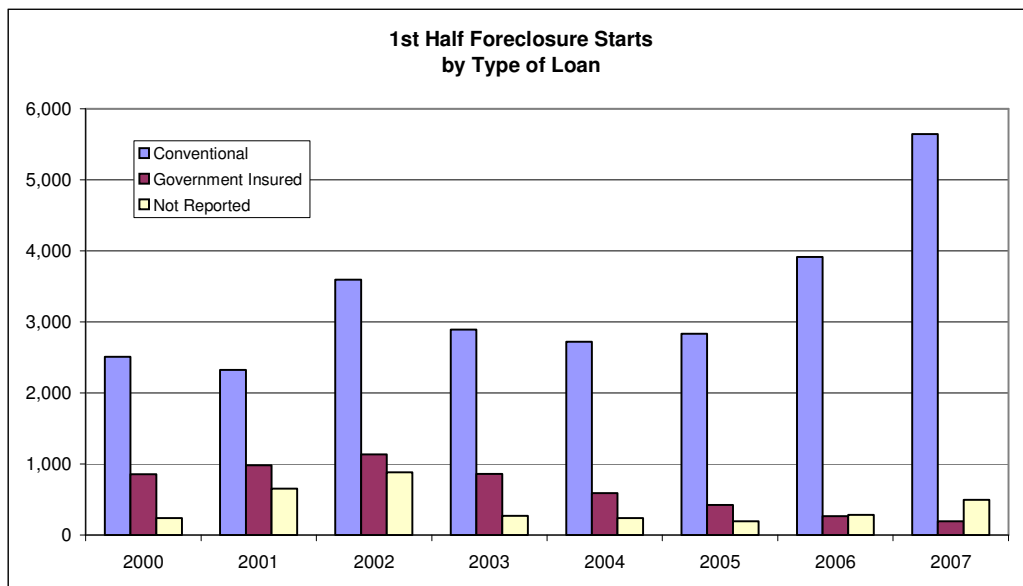
Finding 2: In the first six months of 2007, foreclosure starts have increased 42% over the same period in 2006.

Foreclosure starts during the first six months of 2007 have risen 76% over the same period in 2006. Both increases have been somewhat mitigated by a decrease in the number of new cases started on government-insured loans (FHA and VA).

Since the effective date of the Illinois High Risk Home Loan Act (January 1, 2004), which attempted to reign in high cost mortgages, foreclosure starts in the first six months of 2007 are more than twice what they were over the same period in 2004.

**New Foreclosures Starts in City of Chicago
By Loan Type**

Type of Loan	2000	2001	2002	2003	2004	2005	2006	2007	Change 2000-07	Change 2006-07
Conventional	2,513	2,325	3,594	2,894	2,721	2,836	3,916	5,647	125%	44%
Government Insured	855	982	1,138	859	591	427	264	196	-77%	-26%
Other	0	0	0	1	1	0	0	1	-	-
Not Reported	240	654	883	271	239	197	284	495	106%	74%
	3,608	3,961	5,615	4,025	3,552	3,460	4,464	6,339	76%	42%



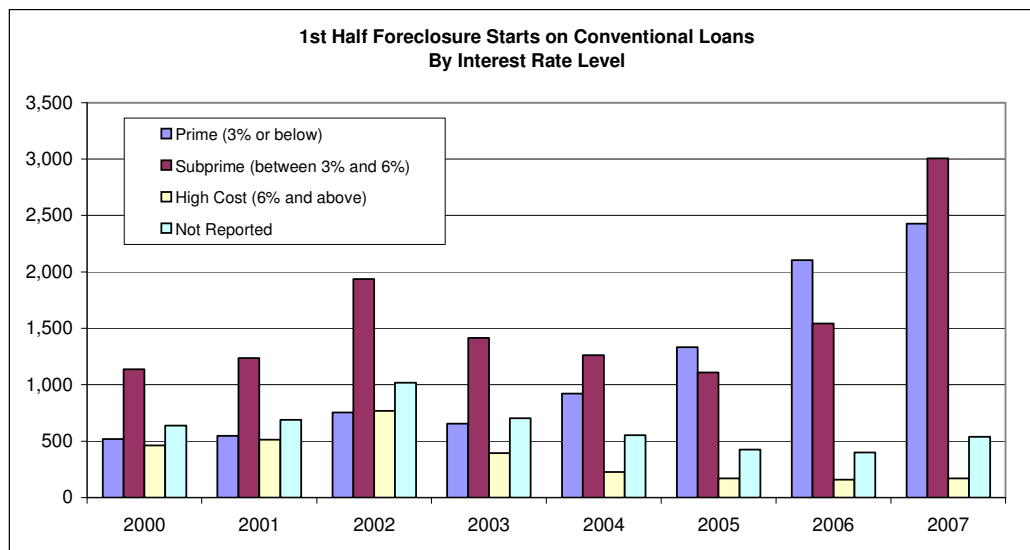
Finding 3: More than 88% of foreclosure cases are on loans not covered by the Illinois High Risk Home Loan Act.

With the push for a state law that resulted in Illinois instituting regulations (effective in 2003) on high cost loans and strengthened by the High Risk Home Loan Act (effective January 1, 2004), the share of high cost loans in foreclosure starts have generally decreased. High cost loan foreclosures over the first six months of each

year peaked in 2002 and decreased through 2006. In the first half of 2007, new foreclosure cases on high cost loans increased by 8% over the same period in 2006. New foreclosure cases on loans with reported interest rates between 3% and 6% of the Treasury rate nearly double during the first half of 2007.

**New Foreclosure Starts in City of Chicago
on Conventional Loans by Interest Rate Level**

Conventional and N/A Loans by Interest Rate Level	2000	2001	2002	2003	2004	2005	2006	2007	Change 2000-07	Change 2006-07
Prime (3% or below)	519	546	755	654	921	1,332	2,102	2,429	368%	16%
Subprime (between 3% and 6%)	1,136	1,235	1,937	1,415	1,263	1,108	1,541	3,005	165%	95%
High Cost (6% and above)	461	511	768	393	225	169	158	170	-63%	8%
Not Reported	637	687	1,017	703	551	424	399	538	-16%	35%
	2,753	2,979	4,477	3,165	2,960	3,033	4,200	6,142	123%	46%



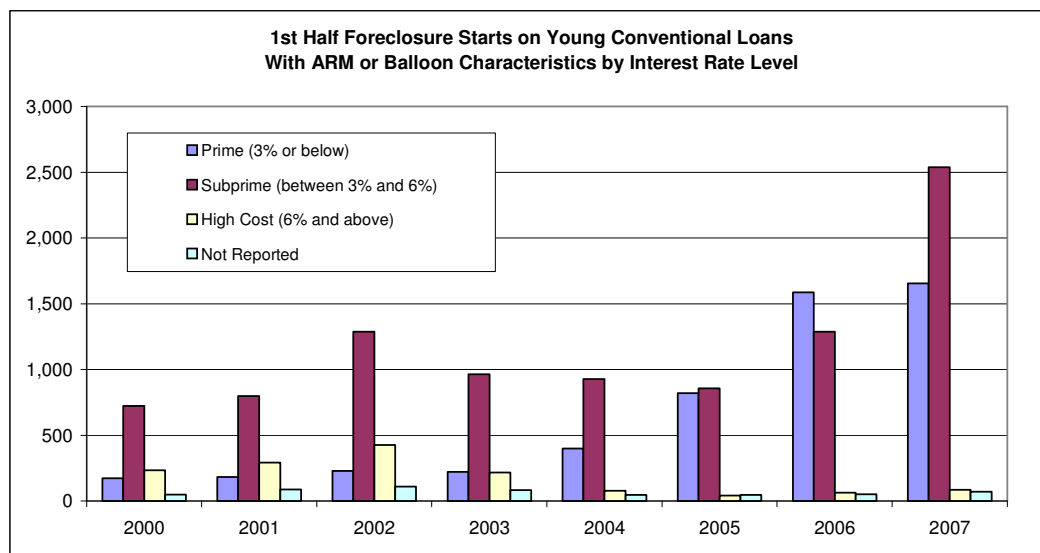
Finding 4: 71% of all foreclosure starts on non-government-insured loans during the first six months of 2007 were on young loans with ARM or balloon payment characteristics.

Young loans are less than 24 months old and are often caused by fraud or abusive lending practices at origination. This high percentage (calculated by using the table in Finding 2 and 3) of foreclosures on young loans is indicative of lending practices designed to get borrowers to take out loans without regard to

their ability to pay back the loans. 96% of these new foreclosure cases were on loans not likely to be covered by the Illinois High Risk Home Loans Act. Even more disturbing is that new foreclosures on young loans during the first half of 2007 grew 45% over the same period in 2006.

**New Foreclosure Starts in City of Chicago
on Young Conventional Loans by Interest Rate Level**

Young Loans with ARMs or Balloons	2000	2001	2002	2003	2004	2005	2006	2007	Change 2000-07	Change 2006-07
Prime (3% or below)	174	184	231	222	399	820	1,587	1,655	851%	4%
Subprime (between 3% and 6%)	723	798	1,286	965	927	857	1,289	2,538	251%	97%
High Cost (6% and above)	233	293	426	218	78	43	65	87	-63%	34%
Not Reported	50	88	110	83	47	47	51	72	44%	41%
	1,180	1,363	2,053	1,488	1,451	1,767	2,992	4,352	269%	45%



Finding 5: Foreclosures are not just a city problem. Many suburbs have high concentrations of foreclosure cases.

The table below shows suburban communities ranked by the number of new foreclosure cases filed during the first six months of 2007 per square mile. The list

includes all suburbs with 20 or more foreclosure starts per square mile. The list is dominated by near west and southern suburbs.

Near western and southern suburbs have a high density of foreclosures

Rank	City or Village	First Half Foreclosure Cases		Change 2006-07	Foreclosure Cases per square mile	
		2006	2007		2006	2007
1	Bellwood	71	103	45.1%	29.8	43.3
2	Stone Park	9	13	44.4%	27.3	39.4
3	Dolton	172	171	-0.6%	36.9	36.7
4	Maywood	103	96	-6.8%	38.1	35.6
5	Wilmington	24	28	16.7%	30.4	35.4
6	Hazel Crest	116	112	-3.4%	34.1	32.9
7	Calumet Park	32	36	12.5%	28.1	31.6
8	Berwyn	85	120	41.2%	21.9	30.8
9	Cicero	114	175	53.5%	19.5	30.0
10	Elmwood Park	33	56	69.7%	17.4	29.5
11	Calumet City	158	216	36.7%	21.4	29.3
12	Country Club Hills	123	134	8.9%	26.6	28.9
13	Harvey	162	177	9.3%	26.2	28.6
14	Park Forest	109	138	26.6%	22.2	28.0
15	Chicago	4464	6339	42.0%	19.4	27.5
16	Round Lake	64	88	37.5%	17.9	24.6
17	Riverdale	89	92	3.4%	23.5	24.3
18	Richton Park	76	82	7.9%	22.4	24.2
19	Carpentersville	99	165	66.7%	13.0	21.7
20	Phoenix	9	9	0.0%	20.0	20.0
21	Plainfield	188	248	31.9%	15.1	20.0

Policy Recommendations to Save the American Dream

American Dream Campaign can be found at www.savetheamericandream.org.

NTIC and affiliate organizations from around the country launched the Save the American Dream Campaign on September 26,

2007 in the Cleveland zip code with the most foreclosures in the country. The campaign recommends immediate relief to keep families in their homes, to stop abusive lending and to build homeownership on a solid foundation. More detail on the campaign is on the following page.

SAVE THE AMERICAN DREAM

A campaign of the National Training and Information Center • 810 N. Milwaukee Ave., Chicago, IL 60622 • 312-243-3035 • www.ntic-us.org

Save the American Dream is an aggressive foreclosure prevention campaign to stop the wide-spread effects of foreclosure on families, neighborhoods and the economy.

Save the American Dream calls for three critical solutions:

1. Immediate Relief to Keep Families in their Homes

- Stop massive interest rate hikes (subprime ARM resets) and modify loans to they are permanently affordable.
- Wall Street investors must donate money towards the Save the American Dream Foreclosure Prevention Fund.
- Mortgage lenders must create a Refinance Loan Product for homeowners who are stuck in an unaffordable loan.
- The mortgage industry must adopt universal loan workout options.

2. Stop Abusive Lending

- The President and Congress must enact comprehensive protections for homeowners and enforce criminal penalties on any broker or lender knowingly engaging in abusive practices.
- The President and Congress must not pre-empt strong state and local homeowner protection laws.
- HUD must amend RESPA to require lenders to provide the final HUD-1 to borrowers 72 hours in advance of the closing.
- President and Congress must enact assignee liability for all parties involved in a loan.
- Require all mortgage lending institutions to create a foreclosure risk officer position.
- Regulate and license mortgage brokers.

3. Build Homeownership on a Solid Foundation

- Expand the Community Reinvestment Act so that all mortgage originators are regulated under the CRA.
- Regulators must modernized CRA to hold all mortgage companies to the same standards.



Inez Killingsworth, NTIC Board Member was joined by over 100 residents, allies and press at the Cleveland launch on Sept. 26. Cleveland is a city well known for its alarming rate of foreclosures.

Visit the Save the American Dream
website and blog:
<http://www.savetheamericandream.org>